THE SAN DIEGO UNION
Thursday, July 21, 1983

Strength seen in U.S. productivity

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Just as the Reagan administration is gearing up for a major drive to improve U.S. productivity, the underlying fundamentals are looking decidedly better.

And that doesn't simply reflect the normal, cyclical uptick in productivity the economy always experiences in a recession recovery period. There's a basic improvement under way.

"Since the spring of 1982, productivity growth has been strong — more so than is usual in the first part of any economic expansion," said John W. Kendrick, economist at George Washington University and the American Enterprise Institute.

Kendrick was interviewed yesterday at the University of San Diego, where he chaired a committee of economists studying productivity measurement as part of the White House Conference on Productivity's thrust for improving productivity. In preparation for a big White House conclave Sept. 22 and 23, conference participants held meetings at USD this week.

Kendrick, perhaps the U.S.' most respected student of economic productivity, heads the group studying whether current statistical indices give economists the proper tools for evaluating productivity performance.

Whether or not they're adequate, current statistics on productivity are encouraging, said Kendrick. From the second quarter of 1982 to the second quarter of 1983, real (inflation-adjusted) growth of productivity, or output per manhour, surged by 2.5 percent.

By contrast, it muddled along at 0.8 percent from 1973 through 1981 — and this dismal performance made the U.S.' productivity growth one of the worst among industrialized nations, alarming economists and politicians.

Kendrick says he believes the recent improvement will prove to be neither illusory nor ephemeral: It's a sign of positive structural change. The recent tax code revisions and cuts — particularly the research and development tax credits — and regulatory reforms have been positive.

And we've taken a page from our competitors, the Japanese. "The quick spreading of employee involvement programs, such as the quality circles (programs in which production line employees have major input in important efficiency decisions) have played a role," said Kendrick.

Also important have been moderate wage gains. First-year wage settlements negotiated by unions have fallen to 1.4 percent, according to recent statistics, largely because of concessions by steel employees. That 1.4 percent figure is too good to last, but the outlook is still good: "Labor costs per unit of output should grow at less than 3 percent through 1984," said Kendrick. Thus, "price inflation will be moderate for the next year and a half."

Some economists disagree with this optimism — particularly monetarists who believe that money supply growth is a better proxy for future inflation than wage price gains.

Economists are forever disagreeing with one another, and yesterday's session at USD was no exception. A prominent monetarist economist, Michael Darby of UCLA, told the panel that the hullaballoo about plunging productivity is "a case of statistical myopia," caused in part by false numbers being recorded during the 1971-1974 period, when businesses were juggling their books to evade price controls. And many of the other statistical indications of lagging productivity can be explained by demographic factors — age, sex, education, immigration patterns.

Four years ago, a panel formed by the Committee on Statistics of the National Research Council (NRC) in the National Academy of Sciences, extensively reviewed government productivity statistics. In the intervening four years, various government agencies that publish these numbers adopted eight of the recommendations and carried out 10 of them in part.

Albert Rees of the Alfred P. Sloan Foundation, who chaired the NRC panel, lauded the government organizations: "The agencies involved have done a tremendous amount during a period in which budgets for non-defense activities have actually been slashed," he said.

At Kendrick's urging, the panel adopted a resolution that the federal government be given adequate resources for expanding the output of productivity statistics. Then an audience member complained that with the federal deficit running over $200 billion this year, any committee devoted to enhancing economic productivity had no business asking the government for more money. Kendrick explained that he had only asked for "sufficient funding — not necessarily increased funding."

The San Diego Union

John W. Kendrick makes point at productivity meeting.